

## COMMERCIAL NEWS UPDATE

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The reports contains the following information:

- RFE: East Siberia oil pipeline update, Mining, Real Estate
- Primorsky Krai: Transportation, Banking and Finance, Business Development, Foreign Affairs, Mining, Retail, Fishing
- Chukotka: Energy Generation
- Kamchatka: Alternative Energy

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### RUSSIAN FAR EAST

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#### East Siberia oil pipeline update

*\* Russia to discuss routing of East Siberia oil pipeline to China*

According to Viktor Khristenko, Russian Industry and Energy Minister, Russia does not rule out the possibility of building a branch to China from the Taishet-Nakhodka oil pipeline. China and Russia will discuss the possibility of building an oil pipeline into China after the expert evaluation of Taishet-Nakhodka pipeline project is completed. The government expert

examination of a project for constructing an oil pipeline could take up to six months. According to current plans,

the 4,200-km pipeline will be routed from Taishet to Perevoznaya bay (Primorsky Kay) via Kazachinskoye, Skovorodino and Khabarovsk. The pipeline will have 44 pumping stations and a terminal with 4.3 million cubic meters of tank-farm capacity at Perevoznaya. The construction cost has been estimated at \$16.22 billion. The pipeline is to pump 24 million tons of oil from Western Siberia and another 56 million tons from fields in Eastern Siberia and Yakutia, most of which are not active yet. (Combined sources: Interfax, August 20, 25, 26, 2004).



Suggested route of East Siberia pipeline  
[www.transneft.ru](http://www.transneft.ru)

*\* Japan proposes to combine oil and gas pipeline routes*

Japan is interested in combining the route of an oil pipeline from Taishet to the Sea of Japan and a gas pipeline from the Kovykta gas condensate field to China and South Korea, a representative from the Japanese oil development corporation said at a meeting in Irkutsk. According to the head of Japanese delegation, simultaneously laying the oil and gas pipelines from Irkutsk to the east would cut costs by almost 50%, which will help reduce the eventual cost of crude transported from Eastern Siberia. Kovykta, which is 450 km from the city of Irkutsk, holds an estimated 2 trillion cubic meters of C1+C2 natural gas (Source: Interfax, September 1, 2004).

## Mining

### *\* Peter Hambro to start exploration of Chagoyansk Gold Field*

A subsidiary of Peter Hambro Mining (U.K.) plans to start exploration work at the Chagoyansky gold field in Russia's Amur region in the near future. According to the company's Vice President Pavel Maslovsky, the company is now finishing surveying work and will receive all the necessary permissions to carry out work; direct exploration may begin in about a month. Peter Hambro Mining subsidiary LLC Victoria Geological Exploration Company won an action for a license to explore and develop the Chagoyansky gold field in March 2004 (*Source: Interfax, July 30, 2004*).

## Real Estate



Newly constructed modern apartment buildings, downtown Vladivostok  
[www.zrpress.ru](http://www.zrpress.ru)

### *\* Real Estate prices up in the Far East*

Prices for apartments on the primary and secondary housing market in Russia rose by 4.1% and 5.6%, respectively, in the second quarter of 2004, compared to the first quarter of 2004; and by 9.8% and 13.9 %, respectively, compared to the same period of 2003. In the Far Eastern Federal District, prices on the primary market in the second quarter 2004 grew by 6.6% compared to the first quarter; and prices on the secondary market increased by 7.1%. While real estate prices increased in all the RFE territories, Khabarovsk and Amur regions exhibited the major growth (*Source: Interfax Statistical Report, vol. XII, issue 35, 2004*).

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## PRI MORSKY KRAY

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## Transportation

*\* Far Eastern Shipping Company earns 345 million roubles net profit in January-June 2004*  
Vladivostok based OJSC Far Eastern Shipping earned 344.7 million rubles net profit in the first half of 2004, compared with a net loss of 34.5 million rubles in the same period in 2003, according to the company's financial report. The company press service reports that the improved financial indicators are due primarily to the optimization of management structures over the past two years. The company ships freight between ports in the Far East, Chukotka, Sakhalin and Kamchatka and also in South Korea, Japan, China, Taiwan, Vietnam, Australia, New Zealand and the U.S. The company's main shareholders are the offshore company S.V.G Holdings S.A., controlled by the group Industrial Investors (62%), and the state (20%) (*Source: Interfax, August 23, 2004*).

## Banking and Finance

### *\* Primorye Banks in Rating of 1000 major banks*

According to the ranking of the major 1000 Russian Banks, provided by Banks-Rate.ru, the major Primorye-based banks took the following ranks out of 1000 Russia banks:

Bank	Ranking on assets (assets worth, rubles)	Ranking on equity (equity worth, rubles)	Ranking on loans extended to businesses (loan portfolio, rubles)
Primorye Bank	192 (4,112,631)	275 (467,846)	186 (1,305,773)
Far Eastern Bank	200 (4,035,901)	283 (458,601)	169 (1,504,143)
Primsotsbank	336 (1,767,641)	599 (151,016)	330 (568,671)
Dalrybbank	369 (1,590,542)	559 (163,479)	341 (549,256)

Source: Banks-rate.ru

*\* Bank Primorye completes international audit for 2002-2003*

Moore Rowland, LLP (London) completed an audit of Vladivostok-based Primorye Bank for 2002-2003 in accordance with international auditing standards and provided a positive audit opinion on the bank's financial performance. According to the audit report, the bank's net assets as on January 1, 2004 amounted to 3,2 billion roubles, which is a 70% increase compared to January 1, 2002 (Source: Deita, September 3, 2004).

*\* Vladivostok-based Dalrybbank to change the name and location*

At the annual meeting shareholders of Vladivostok-based Dalrybbank voted for the relocation of the bank's head office from Vladivostok to Astrahan and the change of the bank's name into Astrahan Industrial Bank. The bank will continue its operations in Vladivostok as a branch office. The bank also opened a branch office in Moscow, which now accounts for 56,6% of the bank's credit portfolio (Source: DV Kapital, #7, July 2004).

## Business Development

*\* Primorye small business booming*

Results of the economic development of 2003 indicate that Primorsky Krai is ranked #17 among Russia's regions on the number of active small businesses, and #15 on the volume of output produced by small business. In the Far Eastern Federal District Primorsky Krai is a leader in small business development: small business produces 28% of the gross regional product and employs 34% of the working population. Moreover, 40% of all the small businesses in the Russian Far East operate in Primorsky Krai. However, experts estimate that up to 30% of small businesses operate in the "shadow" sector, i.e. they are not registered with the state authorities (Source: DV Kapital, #7, 2004).



Vladivostok famous auto market:  
import of used Japanese cars remains a  
significant source for small business  
activity in the region  
www.zrpress.ru

## Foreign Affairs

*\* A new U.S. Consul General arrives in Vladivostok*  
Pamela Spratlen, US Consul General left Vladivostok in mid-August. A new Consul General John Mark Pommersheim took over the position in September. Before this appointment, he served as External Unit Chief in Political Section of the U.S. Embassy Beijing analyzing Chinese foreign policy (Source: *Vladnews*, August 17, 2004 and *U.S. Consulate Vladivostok*).



John Mark Pommersheim gives the first press conference in Vladivostok  
[www.otvprim.ru](http://www.otvprim.ru)



The project of border trade complex  
Pogranichny-Suifenhe  
[www.zrpress.ru](http://www.zrpress.ru)

*\* Primorye and Chinese province Heilunjiang signed a protocol for cooperation*

Primorye Governor Sergei Darkin and Governor of Chinese Province Heilunjiang signed a protocol for cooperation. The document has set the groundwork for future cooperation in various aspects, including the major project on the construction of border trade zone Pogranichny-Suifenhe. Both parties also signed a resolution on the above mentioned border trade zone, which specifies such aspects as customs procedures, financial issues, and management of the complex. Governors also discussed the possibility of opening a direct rail route from Vladivostok to Harbin, China, as well as increasing cooperation in other areas of mutual interests, such as exploration of

natural resources, wood-processing, agriculture and fishing industry (Source: *Vostok Media*, July 23, 2004).

*\* Vladivostok hosted a Trade and Investment Fair of Jilin Province, China*

Over 85 companies representing Chinese Province Jilin took part in a 5-day fair, held in Vladivostok. Besides exhibiting a wide range of products, Chinese companies presented investment proposals on wood processing, cultivation of rice and soy, and construction of shopping centers and hotels. According to Vladivostok Customs House, the volume of Primorsky Krai export to China in January-June 2004 doubled vs. the same period of 2003, and the volume of import increased by 15 % and totaled \$ 77 million. Another Chinese province Heilunjiang handles about 20% of overall China-Russia trade turnover through its customs post at Suifenhe, which encourages Jilin province to further business relationships with the bordering Russia territories (Source: *Konkurent*, # 33, 2004).



Vladivostok Mayor at the opening of  
Jilin trade and investment fair  
[www.konkurent.vl.ru](http://www.konkurent.vl.ru)

## Fishing

*\* Primorye fishing industry results for 6 months of 2004*



According to the Fishery Department of Primorsky Krai Administration, in January-June 2004 fishing companies extracted 276,500 tons of fish and seafood. Primorsky Krai companies produced seafood products worth of 6,4 billion roubles, which is 0.8 % more than in the same period of 2003. Tax collections from all fishing companies amounted to 1,3 billion roubles, which is 2 times more than the last year results. Fish and seafood was mainly exported to South Korea (36% of the total export volume), China (19%), U.S. (17 %), Singapore (11%), and Japan (8%) (*Combined sources: Deita, 23 July, 2004 and Zolotoy Rog, August 17, 2004*).

## Mining

### *\* Governor Darkin signs the program on the Regional Development of Mining Industry up to 2010*

Darkin's program includes specific initiatives for the recovery of the major mining enterprises as well as other promising investment projects. At present, regional enterprises hurt for modernization of existing facilities, introduction of energy efficient and environmentally safe technologies, and effective usage of the ore "tailings", which often contain precious metals.

The regional budget will offer partial financing for priority projects; however, the program also counts on the companies' internal resources and outside investors. Currently, the region's gold-mining industry started to gain interest of potential investors.

According to the head of the Geology Institute, Russia Academy of Science, Alexandr Hanchuk, the use of modern exploration technology creates strong expectations for the discovery of substantial gold and platinum reserves in Primorsky Kray. In his opinion, Primorye is no less promising on the level of potential gold reserves than other regions, but much less developed (*Combined sources: Konkurent, #32 and Zolotoy Rog, May 18, 2004*).



Yaroslavsky Mining and Processing Enterprise (GOK)  
[www.vladnews.ru](http://www.vladnews.ru)

## Retail/Consumers

### *\* Consumers' real disposable income up 15%*

The growth of consumer's real disposable income in Primorye is higher than Russia's average. The regional administration reports that aggregate consumers' income received in January-June 2004 totaled 59,7 billion roubles, which is 23% more than over the same period last year. Real disposable income increased by 15% over last year's indicators (*Source: Deita, August 31, 2004*).

### *\* Nakhodka citizens spend 13 mil roubles on consumer products daily*

Almost 13 mil roubles (433,000 USD) spend the citizens of a small town Nakhodka (population: 178,000, Primorsky Krai) daily on consumer products. According to the City Administration, during the last 5 years the number of retail outlets in Nakhodka more than doubled. In addition, retail trade turnover increased by 9 % in 2003 over 2002. Tax collections from retail stores increased by 17 % during the same period of time (*Source: Vostok Media, July 26, 2004*).

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## CHUKOTKA

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*\* Chukotka holds talks with EBRD to receive a loan*

The administration of Chukotka autonomous district is holding talks with the European Bank for Reconstruction and Development to receive a loan of \$30 million to build wind-diesel power plants in the district. According to Chukotka First Deputy Governor Andrei Gorodilov, the launch of a power plant in Anadyr with a capacity of 30 megawatts per hour is planned for mid-2005, and that this plant would be powered by gas produced by Sibneft at the Zapadno-Ozernoye field. Gorodilov also said that the construction of an oil refinery in Anadyr is being considered and that the district needs investment of about 10 billion rubles per year (*Source: Interfax, Sept 7, 2004*).

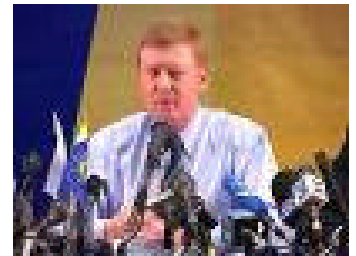
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## KAMCHATKA

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*\* Kamchatka discusses the development of geothermal energy production*

International Geothermal Seminar was held in Kamchatka this August. The seminar attracted 170 specialists from 16 countries, including the representatives of leading energy companies, federal and regional authorities, World Bank, EBRD, and scientific research institutes. Russia currently has 3 geothermal power stations and accounts for 10% of the world's overall power produced this way. Russia is rich in geothermal resources, which potential power exceeds that of organic fuel by 10-12 times. Geothermal resources of Kamchatka alone are estimated at 5,000 megawatts, which is enough to supply the region with the heat and electricity for 100 years. The development of alternative sources of energy has been determined as one of Russia's strategic priorities (*Combined sources: Interfax, August 10 and Vostok-Media, August 10, 2004*).



The President of Unified Energy Systems of Russia (UES), Anatoly Chubais, opens the seminar  
boris.nemtsov.ru

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